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INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS

Estimated resource level and programme for 1994-1995

Report by the Director-General

Summary

Reviews the current pledging pattern of the Industrial Development Fund and describes the Secretariat's approaches for the programming thrust for 1994-1995.

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Introduction

1. The Industrial Development Fund (IDF) is playing an increasingly important role in the development and implementation of UNIDO programmes and policies. As the one programmable resource for financing technical cooperation in programmes and projects besides the Regular Programme of Technical Cooperation, IDF is more than a source of funds; it is a mechanism for programme development and implementation. In view of the growing international development agenda and the increasing pressure on multilateral and bilateral development aid, another key function of the Fund is the mobilization of additional resources in support of industrial development in developing countries.

2. Recognizing the important part played by IDF, the Industrial Development Board, in its decision IDB.10/Dec.9, encouraged UNIDO to continue its efforts to improve the quality of IDF-financed projects in terms of their relevance, cost-effectiveness and sustainability. It also urged all donor Governments to provide more of their contributions to the general-purpose convertible segment of the fund, to reconsider their IDF pledging policies to ensure that the desirable annual funding level of $50 million is reached as soon as possible, and appealed to Member States to consider providing umbrella contributions for financing preparatory assistance activities of large-scale projects and programmes. Despite repeated decisions by the governing bodies, however, the targeted level of funding of $50 million annually is still far from being achieved.

I. ESTIMATED RESOURCE LEVEL

3. The year 1992 saw a $1.4 million increase in pledges to IDF, to $30.3 million, and a $4.7 million increase in project approvals to $32.1 million. These respective increases of 5 and 17 per cent represent an important achievement during a period when official development assistance funds are limited owing to the economic and financial constraints faced by many donor countries and the consequent diminished resources available for multilateral organizations. The increased level of funding is a reflection of the confidence of Member States in the capabilities of UNIDO to develop and implement high-quality technical cooperation programmes and projects, while at the same time it represents a challenge to the Secretariat to continue to fulfil those expectations and to enable UNIDO to respond to the growing demand for its assistance.

4. In the coming biennium, UNIDO will continue its efforts to achieve the targeted funding level of $50 million that was already set for IDF by the

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Board at its second session in 1986. In line with decision IDB.10/Dec.9 and earlier decisions and resolutions of the Board and the General Conference, UNIDO will also continue its efforts to obtain pledges to the general-purpose convertible segment of the Fund, as well as umbrella contributions, which provide the Organization with flexible resources that can be used effectively in the development and implementation of its programmes. With the decrease in the amount of the United Nations Development Programme (UNDP) resources available to finance UNIDO projects, it is essential that IDF pledges be increased in order to enable the Organization to maintain its level of operational activities.

II. PROGRAMMING THRUST, 1994-1995

A. Why pledge to IDF?

5. At a time when the developing countries, especially those with the most fragile economic and technological bases, would require the greatest amount of assistance by the international community to enable them to progress toward economic recovery and long-term economic growth, adverse economic trends in the developed market economies have produced a tendency towards reduced official development aid allocations by some of the major contributors to the multilateral development system. If UNIDO is to fulfil its mandate of promoting and accelerating the industrial development of developing countries in order to assist them in their efforts to achieve sustainable development, it requires extra-budgetary resources. It is thus expected that Member States, when deciding on their policies, including their financial support in terms of voluntary contributions, will give due consideration to this overall perspective as well as to the challenges and opportunities described below.

6. The international community has recognized that it can only face global challenges such as environmental degradation and poverty alleviation effectively by ensuring a process of sustainable development. This was demonstrated by the adoption of the Rio Declaration and Agenda 21 by the United Nations Conference on Environment and Development in Rio de Janeiro, Brazil, in June 1992. To achieve sustainable development in developing countries, it is essential to promote industrial development, which is the main instrument for generating income and employment. This pattern of industrialization must be based on sound environmental considerations, such as the promotion of cleaner production technologies. As the organization in the United Nations system responsible for promoting industrial development, and based on its 25 years of experience and accumulated expertise, UNIDO can play a key role in helping developing countries to achieve those goals. The potential importance of that role has been clearly recognized in several recent papers and studies carried out by some Member States.

7. In order to contribute towards the realization of global development concerns, UNIDO must help Governments to create an enabling environment for industrial development, including *inter alia* appropriate policies and legislation, access to technology and capital and a qualified labour force. A key element of UNIDO assistance will be capacity building to promote increasing self-reliance in the developing countries with regard to the managerial, technical, administrative and research capabilities required to formulate and implement development plans, policies and programmes. UNIDO's capacity-building measures for sustainable industrial development will be carried out at the government level as well as at the public and private institutional level and at the enterprise level. Some of the ways in which UNIDO assistance will be supported through IDF are the following:

(i) Programme frameworks

8. The Industrial Development Fund is a mechanism by which UNIDO can implement the medium-term plan priorities and orient the technical cooperation activities of the Organization towards established priority programmes. UNIDO has introduced thematic programme frameworks to respond to the priorities of the medium-term plan. The programme frameworks for the five priorities and three common elements are designed to concentrate the Organization's efforts on key issues in response to changing global conditions, to translate priorities into operational activities, to mobilize extrabudgetary resources and to provide a frame of reference for reporting and evaluation. By making umbrella contributions to specific programme frameworks, Member States can provide UNIDO with flexible resources that can be programmed to make an effective and coordinated response to the problems identified under those priority areas.

(ii) Country strategies

9. The UNIDO governing bodies have repeatedly requested that the quality of technical cooperation activities be guaranteed by ensuring that projects are relevant to the specific problem to be addressed and to the development objectives of the recipient country. In the coming biennium the Organization will systematically support Member States in developing country strategies by analysing the situation within a country or region and identifying central problem areas and target groups. The availability of country strategies will be instrumental in ensuring project and programme quality in terms of relevance and will also provide a basis for identifying donors or groups of donors at the beginning of the programming exercise. Furthermore, the appraisal, monitoring and evaluation of projects and programmes will be based on those strategies. As regular budget resources will not be sufficient to cover the demand for such activities, additional resources will be necessary under the Industrial Development Fund. A systematic approach to the development of country strategies will be ensured by combining IDF resources with those from UNDP for programme-level analytical and advisory services (TSS-1), as well as Regular Programme and other regular budget funds.

(iii) Programme and project development

10. Member States have recognized IDF as a mechanism that is well suited to enhancing quality in UNIDO technical cooperation activities. The

quality criteria for UNIDO programmes and projects defined in the annex to document GC.4/28 were approved by the General Conference in its decision GC.4/Dec.11. As a follow-up to that decision and to decision IDB.9/Dec.7, the objectives-oriented project planning methodology, used by major IDF donors, was tested in some UNDP- and IDF-sponsored preparatory assistance projects. Some donor country Governments have provided resources through IDF in order to adapt and develop those methodological and analytical tools for the preparation and implementation of technical cooperation programmes and projects.

(iv) Mobilization of additional financial resources

11. As encouraged by the General Conference in decision GC.4/Dec.21, IDF should be used as a means to mobilize larger financial flows, e.g. multilateral and bilateral sources, whether in the form of grant aid, investment resources or loans. A major success story of IDF as a programme mechanism for mobilizing additional financial resources relates to the contributions provided by Norway and Sweden to the environment programme, which enabled UNIDO to initiate activities to promote technologies for the replacement of chlorofluorocarbons (see Annual Report of UNIDO, 1992 (IDB.11/10), chap. III, para. 136). That preparatory work has assisted the Organization in its successful efforts to become the fourth implementing agency of the Multilateral Fund for the Implementation of the Montreal Protocol. An initial allocation of up to $4.5 million to UNIDO through IDF was announced for 1993 for the preparation of industry-related country programmes for the implementation of the Protocol.

12. On the basis of its experience to date, the Secretariat is confident that through the availability in the 1994-1995 biennium of a critical mass of programmable resources under IDF to be used to complement and support the regular budget and Regular Programme of Technical Cooperation, the Organization will be in a position to strengthen its expertise and excellence in specific priority areas. Mobilization of and access to other funding resources will thus be facilitated for industry-related technical cooperation activities, including the implementation of an appropriate share of UNDP-sponsored projects and programmes.

B. Programming lines

13. During the period 1994-1995, the Secretariat will continue to follow the programming lines outlined in document IDB.8/11-PBC.7/14, and elaborated in greater detail in documents GC.4/28 and IDB.10/2-PBC.8/2 (paras. 9 to 12). These programming lines, as acknowledged by the General Conference (GC.4/Dec.21) and the Board (IDB.10/Dec.9), focus on the following areas:

(a) Transfer and appropriate application of technology, including new and advanced technologies, in order to ensure better quality of products and environmental sustainability;

(b) Promotion of comprehensive programmes of technical cooperation that focus on countries or regions for the rehabilitation of specific subsectors of industry and/or on industrial areas;

(c) Promotion of "up-front" activities of technical cooperation such as policy advice, country strategies, sectoral and subsectoral studies and surveys, integrated programme development and preparation of programme and project concepts on UNIDO priority themes that are also a priority in individual country development plans;

(d) Promotion of activities to increase the flow of resources to productive investment projects.

C. Programme and project quality and evaluation

14. To implement the decisions adopted by the policy-making organs and in order to attain the quality standards defined by them, a plan has been prepared by an interdepartmental group and endorsed by the Director-General to introduce the objectives-oriented project planning methodology (OOPP) at UNIDO and review the project development process. That plan will involve: (a) adapting OOPP to UNIDO major project categories; (b) preparing the corresponding guidelines; (c) adapting existing OOPP software; (d) training UNIDO staff involved in technical cooperation activities (preparation and implementation); (e) applying OOPP methods in appraisal work; (f) providing advice on project design early in the project formulation phase; (g) conducting appraisal (OOPP) workshops in the field in order to design projects that fulfil the required quality standards; (h) transferring OOPP methods to recipient countries.

15. The success of the above plan is subject to several critical assumptions defined therein: for example, that improved project quality will secure increased project financing, that project documents are used as a basis for implementation and monitoring, and that sufficient human and financial resources will be available to implement the plan. Although the plan is far more modest than that being discussed to introduce OOPP at the European Economic Community, it is expected that, with the sustained support of management, the plan will be successfully implemented over the coming year.

16. Evaluation plays an important role in helping to improve the quality of IDF-financed projects. The findings of project evaluations are used to determine actions required to improve the performance of ongoing projects, as well as to draw lessons for the improved identification, design and implementation of new technical cooperation activities. Feedback from evaluations is systematically used in the appraisal process, in particular for repetitive projects and subsequent phases of projects. An annual analysis of all in-depth evaluations conducted during the previous year is prepared by the Secretariat, which examines both the quality of the evaluation exercises conducted and that of projects implemented. Furthermore, it is planned that efforts will continue and be strengthened to discuss within the Secretariat the lessons learned from the evaluations in order to identify the actions required to resolve effectively the shortcomings identified by the evaluations.

D. The general-purpose convertible segment

17. As outlined in chapter II above, the Secretariat intends to intensify its efforts in the coming biennium to use IDF as a programmatic mechanism to translate the medium-term plan priority frameworks into action. In order to achieve this, it will focus on the mobilization of resources under the IDF general-purpose convertible segment, including umbrella contributions for selected medium-term plan priority areas. As will be recalled, General Assembly resolution 31/202 that established the United Nations Industrial Development Fund in December 1976 (envisaged that it would consist of general-purpose contributions) to be used to meet "promptly and flexibly" the technical assistance requests of developing countries. Equitable geographical distribution of resources would be facilitated by the availability of freely programmable resources. Contrary to the above intent, IDF has developed into a fund consisting mostly of special-purpose contributions. However, the Secretariat is confident that donors will consider providing more flexible contributions based, inter alia, on the continuing dialogue with recipient and donor Governments, the transparency of activities carried out under the Fund, the consistent application of appraisal, monitoring and evaluation mechanisms, and the regular reporting to donors and policy-making organs.

18. The programming criteria for the general-purpose segment were proposed in document GC.4/28, providing updated and clear-cut guidelines for the identification and selection of projects to be financed under that component. These programming criteria, which were approved in decision GC.4/Dec.21, are the following: preparatory (up-front) activities; preparatory assistance projects and project formulation; and general-purpose contributions towards medium-term plan priority areas. The third criterion, as described in GC.4/28, paragraph 46, envisages that "Priorities for specific medium-term plan areas could be established, within IDF, and donors could pledge general-purpose funds for those specific areas considered to be of highest priority." In other words, pledges or umbrella contributions could be provided to medium-term plan priority areas, which would be freely programmable by the Secretariat within those areas.

19. As reported in the 1992 Annual Report (IDB.11/10, chap. VIII, para. 19), general-purpose resources have been consistently utilized in 1992 for preparatory activities and preparatory assistance projects. The limited size of that segment of the Fund did not however allow for implementing the third programming criterion. The Secretariat will therefore strengthen its efforts towards achieving the longer-term and more ambitious objective of obtaining increased contributions to the general-purpose convertible segment as a means of translating the medium-term plan priorities into action through technical cooperation activities.

III. ACTION REQUIRED OF THE COMMITTEE

20. The Committee may wish to consider recommending to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

(a) Recalls General Conference decision GC.4/Dec.21 on the Industrial Development Fund;

(b) Takes note of the report of the Director-General on the Industrial Development Fund (IDF) contained in document IDB.11/4-PBC.9/4 and the programming thrust for 1994-1995 proposed in chapter II of that document;

(c) Decides to delegate authority to the Director-General to approve projects for financing under the Fund in 1994-1995 in accordance with the priority areas of the draft medium-term plan, 1994-1999 (IDB.10/5-PBC.8/10);

(d) With reference to financial rule 106.11 and in order to strengthen the role of IDF as a programming mechanism allowing programming flexibility, urges all donor Governments to provide part of their contributions to the general-purpose convertible segment of the Fund so that a minimum annual level of $10 million may be achieved as soon as possible;

(e) Encourages Member States to consider providing umbrella contributions for financing preparatory assistance activities of large-scale projects and programmes (IDB.10/2-PBC.8/2, para. 10) and/or as freely programmable contributions towards selected medium-term programme frameworks;

(f) Encourages Member States to revise their IDF pledging policies to ensure that the desirable annual funding level of $50 million be reached as soon as possible."